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John Pierce
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Dear Mr Pierce

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to respond to AEMC's *Strategic Priorities for Energy Market Development Discussion Paper 2011* and congratulates the AEMC on undertaking public consultation on its strategic priorities. We welcome this open process and hope that our contribution will be useful in your further deliberations.

TasCOSS is the peak body for the community services sector in Tasmania and represents the interests of its members and of the low income and disadvantaged Tasmanians they serve. We are concerned primarily with the ongoing affordability of electricity, in particular, as an essential service and the imperative to maintain access to electricity supply for all Tasmanian households, regardless of their income.

This brief submission offers comments on the three priorities identified in the *Discussion Paper* and argues for the inclusion of a fourth, distribution network arrangements, which we see as a significant omission in this paper.

A predictable regulatory and market environment for rewarding economically efficient investment

TasCOSS appreciates the value of this, particularly in relation to government policy decisions that affect investment and related activities.

However, we do not believe that a 'predictable market environment' necessarily means fully competitive retail markets in all jurisdictions with the removal of price regulation as their ultimate goal. We are concerned with the AEMC's desire to see competition introduced in all jurisdictions and we believe that the AEMC must consider the nature of the smaller regions and re-consider a 'one-size-fits-all' approach.

In Tasmania, where average incomes are low, one third of households rely on Commonwealth payments as their major source of income, and average household electricity use is the highest in the nation, any further upward pressure on prices is neither warranted nor welcome. With competition comes costs while there is no certainty of benefits. The introduction of full retail competition in Tasmania would certainly increase prices,

particularly given the absence of competition in generation in the state. In addition, there would be increases in distribution costs to accommodate multiple retailers, advertising costs that would be passed through to consumers and a likely increase in retail profit margins in order to attract additional retailers; to list just a few additional cost pressures.

In short, full retail competition may not be appropriate or effective in Tasmania. It is also likely to have little or no consumer benefit. We therefore urge the AEMC to consider the smaller regions in all of their deliberations.

Building the capability and capturing the value of flexible demand

TasCOSS strongly supports this priority. We see it as a relatively under-explored area that has the potential to reduce demand, including peak demand, and obviate the need for the predicted future high levels of investment in generation and network capacity.

We believe that increased energy efficiency, both in households and businesses, has enormous potential to reduce consumption and costs for consumers. Indeed, the Prime Minister's *Task Group on Energy Efficiency* concluded that a step-change in energy efficiency in Australia is both urgently required and possible.

However, there are significant impediments to realising the full potential of energy efficiency in Australia. The major impediment is the commercial market for electricity in most parts of Australia which, like all markets, focuses on growth. While this can be achieved to some extent by improved efficiencies in delivering electricity, it also relies on, and necessarily promotes, increased demand. So the goals of the National Energy Market and the various competitive retail markets are at odds with maximising and maintaining energy efficiency. This is an obvious challenge that must be overcome if energy efficiency is to realise its full potential.

Another impediment to energy efficiency, and one which particularly concerns TasCOSS, is the structure of electricity retail tariffs. Tasmanian residential tariffs have relatively high standing daily charges (at 95.896 cents per day for the standard residential tariff and 121.28 cents per day for the standard prepayment tariff). It is difficult for households to save money and to perceive their savings by reducing consumption. Each average quarterly bill has a standing charge component of about \$87 for the standard residential tariff, while standard prepayment meter customers pay \$110.36 in standing charges every three months.

It seems obvious that energy efficiency and other demand-side responses have real potential to address some of the emerging challenges identified in the *Discussion Paper*, in particular the forecast increases in peak demand, the consequent investment requirements and rising prices.

Indeed it was interesting to see the *Discussion Paper* cite research published by IPART that suggests there has been a 5% decrease in average household energy consumption in NSW over the five years to 2009-10. This suggests that households may already have improved the efficiency of their energy use and appliances and / or have been responding to increasing prices by reducing usage through rationing and the like.

Ensuring the transmission framework delivers efficient and timely investment

While we appreciate the arguments put forward in the *Discussion Paper* concerning the need for transmission networks to be readied to connect new and varied generation sources at the least cost, we are not convinced that this is as compelling a priority as the nature and regulation of distribution networks

Distribution networks

Increases in distribution costs have been key electricity price drivers across the NEM states. The Tasmanian Economic Regulator noted that in the last Tasmanian retail price determination (2010), combined transmission and distribution network costs contributed 37.01% of the total price increase in that determination, while generation contributed the major share of 50%.¹ In its recent draft report on changes to regulated prices in NSW, IPART noted that 'the biggest drivers of price increases are network costs and the costs of meeting changing green schemes.'²

The IPART Draft Report goes on to present cogent arguments for its recommendation 5 that states:

*The AEMC initiate a review of the National Electricity Rules to address concerns that these rules may bias the Australian Energy Regulator's decisions in favour of higher network prices and inefficient outcomes.*³

TasCOSS supports this recommendation and suggests that the nature and regulation of distribution networks be adopted by the AEMC as an additional priority for the coming year. Distribution has been and remains a key cost driver of increased prices, plays a significant role in supporting and connecting much distributed generation and is a significant component of the total cost of electricity (30-40%).

We hope that our comments are useful in your further deliberations on the AEMC's strategic priorities for energy market development.

Yours sincerely



Tony Reidy
Chief Executive Officer

¹ Office of the Tasmanian Economic Regulator, 2010, *Electricity Prices Explained*
<http://www.economicregulator.tas.gov.au/domino/otter.nsf/8f46477f11c891c7ca256c4b001b41f2/11e8fac1b072a8e3ca2577ca000aff8d?OpenDocument#Why%20have%20prices%20increased%20so%20much>

² Independent Pricing and Regulatory Tribunal (NSW), 2011, *Changes in regulated electricity retail prices from 1 July 2011, Electricity draft report April 2011*, p 81.

³ IPART, 2011, p 85